



**City of
Matlosana**
City of Matlosana

Annual Financial Statements
for the year ended June 30, 2017

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

General Information

Nature of business and principal activities	<p>To within its financial and administrative capacity :</p> <ul style="list-style-type: none">-provide democratic and accountable government for the community of Matlosana;-to ensure the provision of services to the community in a sustainable manner;-to promote social and economic development;-to promote a safe and healthy environment; and <p>To encourage the involvement of the community and community organisations in the matters of the municipality.</p> <p>Legislation governing the operations of the municipality includes but are not limited to the following:</p> <ul style="list-style-type: none">-The Constitution of the Republic of South Africa, 1996 and specifically Chapter 7-Local Government: Municipal Structures Act 117 of 1998-Local Government: Municipal Systems Act 32 of 2000-Local Government: Municipal Finance Management Act 56 of 2003
Mayoral committee	
Executive Mayor	Maetu Kgaile
Speaker	Washington Ntozini
Councillors	M.V Chinga (Chief Whip) M.F Nthaba. T.O Vilakazi. T.G Khoza. F.I Tagaree. M.L Mojaki. S.D Montoedi. N.S Mandela. N.I Matetoane. P.F Mabeli. S.J Daemane.
Accounting Officer	T.S.R Nkhumise.
Chief Finance Officer (CFO)	M.K.G Ramorwesi.
Registered office	Bram Fischer Street Klerksdorp 2571
Business address	Bram Fischer Street Klerksdorp 2571
Postal address	P.O. Box 99 Klerksdorp 2570
Bankers	ABSA Bank Ltd
Auditors	Auditor General

City of Matlosana

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature :

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MMC	Member of the Mayoral Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements is still subject to audit.

The annual financial statements set out on pages 4 to 62, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

Accounting Officer
TSR Nkhumise

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	8	38,057,066	35,275,440
Receivables from exchange transactions	9	15,852,420	31,798,068
Receivables from non-exchange transactions	10	997,886	-
VAT receivable	11	43,146,756	14,996,622
Consumer debtors	12	285,321,220	249,389,554
Other receivables	7	24,987	24,987
Cash and cash equivalents	13	90,532,317	25,568,909
		473,932,652	357,053,580
Non-Current Assets			
Investment property	2	98,247,557	105,306,070
Property, plant and equipment	3	5,390,358,943	5,659,598,452
Intangible assets	4	4,578,555	4,578,555
Heritage assets	5	11,462,382	11,462,382
Other financial assets	6	30,059,029	27,692,322
Security Deposit paid to Eskom		15,000,002	15,000,000
Other receivables	7	112,477	147,640
Nature reserve - Wild stock		1,599,112	2,554,281
		5,551,418,057	5,826,339,702
Total Assets		6,025,350,709	6,183,393,282
Liabilities			
Current Liabilities			
Other financial liabilities	14	13,109,542	13,109,542
Payables from exchange transactions	17	722,572,537	544,856,816
Unspent conditional grants and receipts	15	8,586,956	10,748,455
Provisions	16	13,332,343	12,546,570
Consumer deposits	18	24,124,748	29,309,017
National Treasury Liability		-	16,596
		781,726,126	610,586,996
Non-Current Liabilities			
Other financial liabilities	14	88,158,572	102,720,212
Provisions	16	246,277,700	253,637,219
		334,436,272	356,357,431
Total Liabilities		1,116,162,398	966,944,427
Net Assets		4,909,188,311	5,216,448,855
Net Assets			
Accumulated surplus		4,909,188,311	5,216,448,855

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Service charges	21	1,389,127,035	1,311,585,378
Rendering of services		13,541	3,701
Rental of facilities and equipment		5,137,430	4,579,207
Licences and permits		7,107,165	5,717,316
Miscellaneous other revenue		8,339	4,197
Commissions received		10,717,594	10,370,251
Royalties received		1,753,619	2,338,097
Rental income		273,955	295,481
Discount received		627,965	638,644
Recoveries		9,902,031	2,113,123
Other income		14,321,889	14,164,825
Donation of Property		20,836,637	25,772,055
Interest received	28	170,467,245	138,480,734
Property rates	20	265,941,408	272,706,788
Government grants & subsidies	22	477,693,095	446,574,019
Levies		1,490,257	1,410,620
Fines		10,505,354	13,573,269
Market dues		16,616,277	16,064,180
Total revenue		2,402,540,836	2,266,391,885
Expenditure			
Employee related costs	25	(530,451,714)	(489,414,758)
Remuneration of councillors	26	(28,398,076)	(23,981,844)
Depreciation and amortisation	29	(410,555,939)	(427,744,133)
Finance costs	30	(43,954,964)	(33,862,799)
Lease rentals on operating lease		(28,889,458)	(12,256,399)
Debt impairment	27	(543,458,552)	(480,063,289)
Repairs and maintenance		(68,240,419)	(50,600,975)
Bulk purchases	33	(775,219,428)	(759,344,771)
Contracted services	32	(35,801,781)	(32,055,317)
General expenses	24	(244,831,015)	(211,342,507)
Total expenditure		(2,709,801,346)	(2,520,666,792)
Operating deficit		(307,260,510)	(254,274,907)
Deficit for the year		(307,260,510)	(254,274,907)

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	5,321,300,006	5,321,300,006
Adjustments		
Prior year adjustments	149,423,755	149,423,755
Balance at July 1, 2015 as restated*	5,470,723,761	5,470,723,761
Changes in net assets		
Deficit for the year	(254,274,906)	(254,274,906)
Total changes	(254,274,906)	(254,274,906)
Balance at July 1, 2016	5,216,448,822	5,216,448,822
Changes in net assets		
Deficit for the year	(307,260,511)	(307,260,511)
Total changes	(307,260,511)	(307,260,511)
Balance at June 30, 2017	4,909,188,311	4,909,188,311
Note(s)		

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,075,678,225	1,073,930,344
Grants		475,531,596	443,255,405
Interest income		170,467,245	138,480,734
VAT received		-	13,606,470
Other receipts		84,229,101	50,225,315
		<u>1,805,906,167</u>	<u>1,719,498,268</u>
Payments			
Employee costs		(556,219,853)	(527,150,151)
Suppliers		(944,436,224)	(1,064,745,645)
Finance costs		(43,954,964)	(33,862,799)
Vat paid		(28,150,134)	-
		<u>(1,572,761,175)</u>	<u>(1,625,758,595)</u>
Net cash flows from operating activities	34	<u>233,144,992</u>	<u>93,739,673</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(149,824,458)	(88,458,210)
Purchase of investment property	2	(225,000)	-
Proceeds from sale of investment property	2	3,997,088	17,830,596
Purchase of other intangible assets	4	-	(3,815,451)
Purchases of heritage assets	5	-	(6,300)
Net movement of financial assets		(2,366,707)	(1,895,357)
Increase in deposits paid to Eskom		(2)	(15,000,000)
Purchase of nature reserve - wild stock		-	(594,715)
Net cash flows from investing activities		<u>(148,419,079)</u>	<u>(91,939,437)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(14,561,640)	(13,109,542)
Movement in consumer deposits		(5,184,269)	6,361,600
Repayment of liability to National Treasury		(16,596)	16,596
Net cash flows from financing activities		<u>(19,762,505)</u>	<u>(6,731,346)</u>
Net increase/(decrease) in cash and cash equivalents		64,963,408	(4,931,110)
Cash and cash equivalents at the beginning of the year		25,568,909	30,500,019
Cash and cash equivalents at the end of the year	13	<u>90,532,317</u>	<u>25,568,909</u>

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,428,351,396	78,956,413	1,507,307,809	1,389,127,035	(118,180,774)	The expected revenue from services did not meet the projected targets due to economic and environmental conditions
Rendering of services	211,800	-	211,800	13,541	(198,259)	
Rental of facilities and equipment	6,150,986	320,590	6,471,576	5,137,430	(1,334,146)	
Licences and permits	7,512,621	(8,459,854)	(947,233)	7,107,165	8,054,398	
Miscellaneous other revenue	233,960	(40,060)	193,900	8,339	(185,561)	
Commissions received	9,835,294	-	9,835,294	10,717,594	882,300	
Royalties received	1,275,600	-	1,275,600	1,753,619	478,019	
Rental income	445,344	-	445,344	273,955	(171,389)	
Discount received	590,894	(113,583)	477,311	627,965	150,654	
Recoveries	2,500	-	2,500	9,902,031	9,899,531	
Other income	45,806,784	(33,780)	45,773,004	14,321,889	(31,451,115)	Budgeted revenue on reconnections did not materialise
Donations Received	-	-	-	20,836,637	20,836,637	Donation of stands in Kanana from the Mine, donations are not budgeted for.
Interest received - investment	108,315,762	2,557,570	110,873,332	170,467,245	59,593,913	Interest on arrear accounts exceeded the budgeted amount due to debtors book growth
Total revenue from exchange transactions	1,608,732,941	73,187,296	1,681,920,237	1,630,294,445	(51,625,792)	

Revenue from non-exchange transactions

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

		Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand							
Taxation revenue							
Property rates	317,222,791	20,870,329	338,093,120	265,941,408	(72,151,712)	There was an anticipated increase in the rates due to the revenue enhancement initiatives taken by council, they did not however materialise.	
Transfer revenue							
Government grants & subsidies	485,887,000	(11,969,900)	473,917,100	477,693,095	3,775,995	There was no budget allocated for the operating revenue recognised for grant funded capital expenditure	
Levies	1,784,838	-	1,784,838	1,490,257	(294,581)		
Fines	7,041,983	(15,885)	7,026,098	10,505,354	3,479,256		
Market Dues	17,000,000	-	17,000,000	16,616,277	(383,723)		
Total revenue from non-exchange transactions	828,936,612	8,884,544	837,821,156	772,246,391	(65,574,765)		
Total revenue	2,437,669,553	82,071,840	2,519,741,393	2,402,540,836	(117,200,557)		
Expenditure							
Personnel	(521,908,498)	(31,768,970)	(553,677,468)	(530,451,714)	23,225,754	Not all vacancies, that were budgeted for, were filled	
Remuneration of councillors	(25,138,051)	(6,229,943)	(31,367,994)	(28,398,076)	2,969,918		
Depreciation and amortisation	(476,729,783)	(158,224)	(476,888,007)	(410,555,939)	66,332,068	Assets journals still to be finalized	
Finance costs	(14,169,181)	(14,935,062)	(29,104,243)	(43,954,964)	(14,850,721)	Bulk purchases accounts in arrears attract interest that are not budgeted for	
Lease rentals on operating lease	(23,038,250)	(7,371,262)	(30,409,512)	(28,889,458)	1,520,054		
Bad debts written off	(367,522,590)	-	(367,522,590)	(543,458,552)	(175,935,962)	The debtors book increased at a rate higher than expected and consequently impairment of debtors was under budgeted	

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

		Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand							
Repairs and maintenance	(86,661,475)	(470,019)	(87,131,494)	(68,240,419)	18,891,075	Further cost containment resulted in lower expenditure	
Bulk purchases	(811,802,286)	-	(811,802,286)	(775,219,428)	36,582,858	The budget is calculated on estimates and the actuals are demand driven and influenced by the economic and environmental conditions	
Contracted Services	(46,447,745)	(100,000)	(46,547,745)	(35,801,781)	10,745,964	Connecting/disconnecting services overbudgeted for	
General Expenses	(234,418,377)	(31,083,781)	(265,502,158)	(244,831,015)	20,671,143	Further cost containment resulted in lower expenditure	
Total expenditure	(2,607,836,236)	(92,117,261)	(2,699,953,497)	(2,709,801,346)	(9,847,849)		
Deficit before taxation	(170,166,683)	(10,045,421)	(180,212,104)	(307,260,510)	(127,048,406)		
Deficit for the year from continuing operations	(170,166,683)	(10,045,421)	(180,212,104)	(307,260,510)	(127,048,406)		
Capital Expenditure	(144,615,900)	(29,325,331)	(173,941,231)	(142,247,996)	31,693,235	Mainly contributed to own funded projects that is not yet completed	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(314,782,583)	(39,370,752)	(354,153,335)	(449,508,506)	(95,355,171)		

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant policy.

1.4 Nature Reserve - Wild Stock

The entity recognises nature reserve - wild stock when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Nature Reserve - Wild Stock are measured at their fair value less costs to sell.

The fair value of the wild stock is determined based on auction prices.

A gain or loss arising on initial recognition of nature reserve - wild stock at fair value less costs to sell and from a change in fair value less costs to sell of a nature reserve - wild stock is included in surplus or deficit for the period in which it arises.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	7 to 30 years
Furniture and fixtures	7 to 30 years
Infrastructure	
• Roads and paving	10 to 30 years
• Electricity	20 to 30 years
• Wastewater network	15 to 20 years
Other vehicles	3 to 20 years
Other equipment	5 to 10 years
Specialised plant and machinery	5 to 15 years
Other property, plant and equipment	3 to 15 years

Accounting Policies

1.6 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets are shown at cost and are not depreciated owing to uncertainty regarding to their estimated useful lives.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Accounting Policies

1.9 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated.
- Held-to-maturity investment.
- Loans and receivables.
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Accounting Policies

1.9 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.9 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- a gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- for financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability. The lease assets are depreciated at appropriate rates as per the relevant policy.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in restated deficit as per statement of changes in net assets.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the expense to the municipality.

Accounting Policies

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Accounting Policies

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Other post retirement obligations

The entity provides post-retirement health care benefit to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Accounting Policies

1.15 Provisions and contingencies (continued)

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Leave and bonus accruals :

- liabilities for annual leave and bonus are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end for the leave accrual and the bonus accrual based on the initial inception of the service month.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and

Accounting Policies

1.16 Commitments (continued)

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.19 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred otherwise than in accordance with section 15 or 11(3) of the MFMA and includes :

- overspending of the total amount appropriated in the approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the act.

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1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the restated deficit as per statement of changes in net assets in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the restated deficit as per statement of changes in net assets.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Restated deficit as per Statement of changes in Net Assets and where recovered, it is subsequently accounted for as revenue in the Restated deficit as per Statement of changes in Net Assets.

1.25 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.26 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the restated deficit as per statement of changes in net assets when the gratuity is paid.

1.27 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the restated deficit as per statement of changes in net assets.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the restated deficit as per statement of changes in net assets in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the restated deficit as per statement of changes in net assets as they arise.

1.28 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.29 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.29 Segmental information (continued)

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.30 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.32 Retirement benefits

Councillors and employees as well as Council contribute to the following pension and provident funds, which provide retirement benefits to such Councillors and employees:

- Municipal Employees Gratuity Fund.
- Pension Fund for Municipal Councillors.
- National Fund for Municipal Workers.
- SALA Pension Fund.
- SAMWU Provident Fund.
- Municipal Employees Pension Fund.

Council does not operate or are not involved in a guaranteed benefit pension scheme. The above schemes are only based on guaranteed contributions from the side of the employer.

1.33 Going concern

These annual financial statements have been prepared on a going concern basis.

1.34 Comparative information

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are also reclassified.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.35 New Standards and Interpretations

Application of all of the GRAP standards listed below will be effective from a date to be announced by the Minister of Finance.

Management has considered all the of the listed GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting.
- GRAP 20 Related Party Disclosures.
- GRAP 25 Employee Benefits.
- GRAP 105 Transfers between entities under common control.
- GRAP 106 Transfers between entities not under common control.
- GRAP 107 Mergers.
- Improvements to Standards of GRAP.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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2. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	98,247,557	-	98,247,557	105,306,070	-	105,306,070

Reconciliation of investment property - 2017

	Opening balance	Additions	Disposals	Total
Investment property	105,306,070	225,000	(7,283,513)	98,247,557

Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Transfers	Total
Investment property	46,547,742	15,276,353	(1,176,717)	44,658,692	105,306,070

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	109,581,334	-	109,581,334	97,035,392	-	97,035,392
Buildings	440,453,290	(162,287,224)	278,166,066	434,428,100	(139,366,481)	295,061,619
Infrastructure	0,348,828,790	(5,949,234,282)	4,399,594,508	0,264,863,660	(5,650,069,128)	4,614,794,532
Community	969,687,116	(421,565,089)	548,122,027	959,940,098	(368,082,286)	591,857,812
Other property, plant and equipment	150,625,701	(95,730,693)	54,895,008	148,114,410	(87,265,313)	60,849,097
Total	12,019,176,231	(6,628,817,288)	5,390,358,943	11,904,381,660	(6,244,783,208)	5,659,598,452

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	97,035,392	20,362,345	(7,816,403)	-	-	-	-	109,581,334
Buildings	295,061,618	6,025,189	-	-	-	-	(22,920,741)	278,166,066
Infrastructure	4,614,794,533	130,917,127	(20,854,199)	-	-	-	(325,262,954)	4,399,594,507
Community	591,857,812	9,747,018	-	-	-	-	(53,482,803)	548,122,027
Other property, plant and equipment	60,849,097	3,609,416	(674,066)	-	-	-	(8,889,439)	54,895,008
	5,659,598,452	170,661,095	(29,344,668)	-	-	-	(410,555,937)	5,390,358,942

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	101,224,933	-	(5,730,053)	1,540,512	-	-	-	-	97,035,392
Buildings	318,556,829	-	-	-	-	-	(23,495,211)	-	295,061,618
Infrastructure	4,855,898,409	101,196,558	(8,523,990)	-	-	-	(333,759,197)	(17,247)	4,614,794,533
Community	644,559,226	3,643,038	-	-	-	-	(56,344,452)	-	591,857,812
Other property, plant and equipment	66,062,237	9,468,421	(553,534)	-	-	-	(14,128,027)	-	60,849,097
	5,986,301,634	114,308,017	(14,807,577)	1,540,512	-	-	(427,726,887)	(17,247)	5,659,598,452

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	48,174,658	48,174,658
Additions/capital expenditure	66,099,921	66,099,921
Transferred to completed items	(14,709,499)	(14,709,499)
	99,565,080	99,565,080

4. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4,578,555	-	4,578,555	4,578,555	-	4,578,555

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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4. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Total
Computer software, other	4,578,555	4,578,555

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Total
Computer software, other	763,104	3,815,451	4,578,555

5. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museum collectable, Monuments and Heritage sites	11,462,382	-	11,462,382	11,462,382	-	11,462,382

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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5. Heritage assets (continued)

Reconciliation of heritage assets 2017

	Opening balance	Total
Museum collectable, Monuments and Heritage sites	11,462,382	11,462,382

Reconciliation of heritage assets 2016

	Opening balance	Additions	Total
Museum collectable, Monuments and Heritage sites	11,456,082	6,300	11,462,382

Heritage assets which fair values cannot be reliably measured

Heritage Assets

The following heritage assets cannot be reliably measured: 15 Grave stones/graves, 6 Monuments, 1 railway line bridge, 1 old mine shaft, 1 rock engraving, 1 foundation and 1 rock wall. Fair value cannot be determined reliably due to the uniqueness of the asset and no market exists for the assets to establish a reasonable value.

6. Other financial assets

At amortised cost

Investments	30,059,029	27,692,322
The municipality has not reclassified any financial assets from amortised cost to fair value or from fair value to amortised during the current or prior year.		

Non-current assets

At amortised cost	30,059,029	27,692,322
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Financial assets at amortised cost

Nominal value of Investments

Nedcor FK183349	21,697,304	19,875,074
The Nedcor investment is encumbered by a pledge of R3 700 000.		
Sanlam Capital guaranteed fund - 040710409X0	524,109	490,096
Sanlam Capital guaranteed fund - 040644725X0	7,837,616	7,327,152
	30,059,029	27,692,322

7. Other receivables

Loan to Klerksdorp Rolbalklub

Short term portion of loan	25,995	24,987
Other	10,121	10,121
Long term portion of loan	121,590	137,519
	157,706	172,627

An existing loan to the Klerksdorp Rolbalklub is being repaid with an interest rate of 5% applicable. The MFMA stopped the practice of giving loans to sport bodies

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
8. Inventories		
Consumable stores	35,081,646	32,723,971
Water	2,547,426	2,076,531
Museum stores - at authorised value	77,566	298,439
Unsold properties held for resale at council resolution or municipal valuation	350,428	176,499
	38,057,066	35,275,440
9. Receivables from exchange transactions		
Deposits	818,117	727,153
Receivables	10,321,175	26,329,977
Market	3,394,893	3,394,893
Housing and housing rentals	1,318,235	1,346,045
	15,852,420	31,798,068
10. Receivables from non-exchange transactions		
Fines	997,886	-
Receivables from non-exchange transactions impaired		
As of June 30, 2017, other receivables from non-exchange transactions of R24,035,530 (2016: R14,966,780) were impaired and provided for.		
The amount of the provision was R23,037,643 as of June 30, 2017 (2016: R14,966,780).		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(14,966,780)	-
Provision for impairment	(8,070,863)	(14,966,780)
	(23,037,643)	(14,966,780)
11. VAT receivable		
VAT	43,146,756	14,996,622
12. Consumer debtors		
Gross balances		
Rates	155,214,166	137,197,404
Electricity	378,569,682	343,615,222
Water	936,443,083	750,560,729
Sewerage	181,820,449	153,663,046
Refuse	274,528,683	218,538,899
Interest on overdue accounts	647,024,761	515,274,329
Other	305,852,204	262,340,243
	2,879,453,028	2,381,189,872

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Consumer debtors (continued)		
Less: Allowance for impairment		
Rates	(144,371,236)	(127,559,388)
Electricity	(301,502,451)	(268,211,201)
Water	(837,477,556)	(666,318,521)
Sewerage	(169,118,860)	(142,716,605)
Refuse	(255,350,695)	(203,221,807)
Interest on overdue accounts	(601,824,990)	(478,773,634)
Other	(284,486,021)	(244,999,160)
	(2,594,131,809)	(2,131,800,316)
Net balance		
Rates	10,842,930	9,638,015
Electricity	77,067,231	75,404,021
Water	98,965,527	84,242,208
Sewerage	12,701,589	10,946,441
Refuse	19,177,989	15,317,091
Interest on overdue accounts	45,199,771	36,500,695
Other	21,366,183	17,341,083
	285,321,220	249,389,554
Rates		
Current (0 -30 days)	18,631,027	17,471,479
31 - 60 days	5,511,977	5,246,287
61 - 90 days	4,131,023	3,712,169
91+ days	126,940,138	110,767,468
Provision for bad debts	(144,371,235)	(127,559,388)
	10,842,930	9,638,015
Electricity		
Current (0 -30 days)	96,484,136	95,925,004
31 - 60 days	14,198,462	8,876,631
61 - 90 days	7,868,852	5,844,205
91 + days	260,018,232	232,969,382
Provision for bad debts	(301,502,451)	(268,211,201)
	77,067,231	75,404,021
Water		
Current (0 -30 days)	68,894,820	70,647,290
31 - 60 days	25,674,896	31,252,552
61 - 90 days	24,030,915	19,193,698
91 + days	817,842,452	629,467,189
Provision for bad debts	(837,477,556)	(666,318,521)
	98,965,527	84,242,208
Sewerage		
Current (0 -30 days)	6,763,590	7,436,391
31 - 60 days	4,018,219	3,933,176
61 - 90 days	4,218,100	3,360,477
91 + days	166,820,540	138,933,002
Provision for bad debts	(169,118,860)	(142,716,605)
	12,701,589	10,946,441

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	8,901,426	10,207,809
31 - 60 days	6,171,569	6,615,339
61 - 90 days	7,076,321	5,739,739
91 + days	252,379,368	195,976,011
Provision for bad debts	(255,350,695)	(203,221,807)
	19,177,989	15,317,091
Interest on overdue accounts		
Current (0 -30 days)	17,217,717	15,297,699
31 - 60 days	16,791,198	12,483,689
61 - 90 days	18,817,904	11,953,885
91 + days	594,197,942	475,539,056
Provisions for bad debts	(601,824,990)	(478,773,634)
	45,199,771	36,500,695
Other		
Current (0 -30 days)	13,561,713	14,852,396
31 - 60 days	7,673,807	8,119,344
61 - 90 days	6,953,720	5,530,653
91 + days	277,662,964	233,837,850
Provision for bad debts	(284,486,021)	(244,999,160)
	21,366,183	17,341,083
Reconciliation of allowance for impairment		
Balance at beginning of the year	(2,131,800,316)	(1,795,870,141)
Contributions to allowance	(568,164,833)	(474,564,132)
Debt impairment written off against allowance	105,833,340	138,633,957
	(2,594,131,809)	(2,131,800,316)

The carrying value of consumer debtors approximate fair value.

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	68,500	68,500
Short-term deposits and Bank balances	90,463,817	25,500,409
	90,532,317	25,568,909

The municipality had the following bank accounts

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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13. Cash and cash equivalents (continued)

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	30 June 2016	June 30, 2015	June 30, 2017	30 June 2016	June 30, 2015
ABSA Bank - cheque account - 4060008684	339,485	321,037	144,183	260,942	234,245	118,628
ABSA Bank - cheque account - 01000100176	26,404,536	16,603,440	4,805,676	31,863,888	11,389,618	2,739,891
ABSA Bank - cheque account - 950164379 (Council water)	1,472,047	154,406	982,081	653,812	(463,145)	380,255
ABSA Bank - cheque account - 950000090 (Market)	864,395	926,883	814,093	92,062	92,062	92,062
ABSA Bank - 407826177 - Call Account	400,026	165,330	272,862	400,026	165,330	272,862
ABSA Bank - 4081494682 - Call	18,704,344	1,749,359	202,314	18,704,344	1,749,359	202,314
ABSA Bank - 4086111223 - Call Account	24,827,783	643,442	128,206	24,827,783	643,442	128,206
ABSA Bank - 4073033854 - Call Account	1,741,484	424,509	31,052,506	1,741,484	424,509	31,052,506
ABSA Bank - 9056825047 - Call Account	46,068	43,788	43,254	46,068	43,788	43,247
ABSA Bank - 9074204063 - Call Account	172,478	169,646	167,989	172,478	169,646	167,083
ABSA Bank - 9090072264 - Call Account	5,865,914	5,582,731	402,399	5,865,914	5,582,731	402,399
Investec Bank - 30000123771 - Call Account	5,584,257	5,218,153	65,397	5,584,257	5,218,153	65,397
FNB - 71037411669 - Collateral	39,748	36,975	34,778	34,778	36,975	34,778
FNB - 70379020873 - Collateral	14,000	14,000	14,000	14,000	14,000	14,000
FNB - 71039866474 - Collateral	55,025	51,379	48,438	48,438	51,379	48,438
ABSA Bank - call account - 4071085841 (Housing)	139,558	148,713	148,713	148,317	148,317	148,317
Total	86,671,148	32,253,791	39,326,889	90,458,591	25,500,409	35,910,383

14. Other financial liabilities

At amortised cost

Shiva Uranium	32,409,664	32,409,664
The loan is interest free and repayable by selling portable water to the company at R0.50 per kilolitre discount to the regular price of potable water pumped.		
Annuity loans	68,858,450	83,420,091
	101,268,114	115,829,755

Total other financial liabilities

101,268,114	115,829,755
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Non-current liabilities

At amortised cost	88,158,572	102,720,212
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Current liabilities

At amortised cost	13,109,542	13,109,542
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City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
MIG	166,085	-
National Electricity Regulator	1,068,976	1,938,428
FMG	6,010	1,070
DWAF	276,464	276,464
MSIG	-	130,526
EPWP	2,466	1,512,217
Fire Grant	255,183	255,183
Library grant	1,781,810	1,632,755
NDPG Grant	28,150	-
Dr Kenneth Kaunda District Municipality	213,176	213,176
Disaster Assessment Management Grant	200,000	200,000
District Grant	4,581,284	4,581,284
Museum Grant	7,352	7,352
	8,586,956	10,748,455

See note 22 for reconciliation of grants from National or Provincial Government.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement	Total
Environmental rehabilitation	11,114,665	-	(3,918,444)	-	7,196,221
Continuous medical aid contribution	203,018,828	-	-	(5,285,239)	197,733,589
Long service awards	52,050,296	2,629,937	-	-	54,680,233
	266,183,789	2,629,937	(3,918,444)	(5,285,239)	259,610,043

Reconciliation of provisions - 2016

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	16,031,129	-	-	(4,916,464)	-	11,114,665
Continuous medical aid contribution	213,229,839	-	-	-	(10,211,011)	203,018,828
Long service awards	50,676,370	1,373,926	-	-	-	52,050,296
	279,937,338	1,373,926	-	(4,916,464)	(10,211,011)	266,183,789

Non-current liabilities	246,277,700	253,637,219
Current liabilities	13,332,343	12,546,570
	259,610,043	266,183,789

Employee benefit cost provision

Year ending 30/06/2018	Year ending 30/06/2019	2017	2016
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City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
16. Provisions (continued)		
Opening defined benefit obligation	197,733,589	215,246,856
Plus Service Cost	8,298,650	9,066,227
Plus Interest / Finance Cost	17,896,579	19,486,774
Actuarial (Gain)/Loss	-	-
Expected Employer Benefit Payments	(8,681,962)	(9,338,260)
	215,246,856	234,461,597
	197,733,589	203,018,828

General description of the type of plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

Discount rate : 9.25% (2016 :9.37%)

Health care cost inflation rate: 7.56% (2016 : 8.43%)

Net effective discount rate: 1.57% (2016 : 0.87%)

Maximum Subsidy inflation rate: 5.29% (2016 :5.95%)

Net discount rate for capped subsidies: 3.76% (2016: 3.23%)

Take-up by retired employees : 100% (2016 : 100%)

Retirement age : 65 (2016 : 65)

Proportion assumed married at retirement: 45% (2016: 45%)

Proportion of eligible current non-member employees joining the scheme by retirement 25% (2016: 25%)

Pre retirement mortality : SA85-90 Light (2016 : SA85-90 Light)

Post retirement mortality : PA[90] (2016 : PA[90])

Sensitivity Analysis

The table below indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 8% higher than that shown.

(R millions)

Assumption	Change	In-service	Continuation	Total	% Change
Central Assumptions		104.687	93.047	197.734	
Health care inflation	+1%	116.899	94.936	211.836	7%
	-1%	90.311	90.194	180.505	-9%
Discount Rate	+1%	86.248	85.911	172.159	-13%
	-1%	128.496	101.320	229.817	16%
Post-retirement mortality	-1 yr	108.201	96.337	204.538	3%
Average retirement age	-1 yr	114.948	93.047	207.994	5%
Continuation of membership at retirement	-10%	90.436	93.047	183.482	-7%

Sensitivity Analysis Continued

The table below summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2017.

City of Matlosana

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16. Provisions (continued)

(R millions)

Assumption	Change	Current - service Cost	Interest Cost	Total	% change
Central Assumptions		8,445,700	18,659,000	27,504,700	
Health care inflation	+1%	10,091,400	20,121,800	30,213,200	17%
	-1%	7,417,100	16,918,900	24,336,000	-15%
Discount rate	+1%	7,155,600	17,865,100	25,020,700	-9%
	-1%	11,071,200	19,499,800	30,571,000	11%
Post-retirement mortality	-1yr	9,175,500	19,370,200	28,545,700	4%
Average retirement age	-1yr	9,549,300	19,679,400	29,228,700	6%
Continuation of membership at retirement	-10%	7,640,300	17,278,900	24,919,200	-9%

History of Liabilities, Assets and Experience Adjustments

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods

History of liabilities and assets (R millions)

Liability History	30/06/2013	30/06/2014	30/06/2015	30/06/2016	30/06/2017
Accrued liability	235,206	195,598	213,230	203,019	197,734
Fair value of plan assets	0.00	0.00	0.00	0.00	0.00
Surplus / (Deficit)	(235,206)	(195,598)	(213,230)	(203,019)	(197,734)

The table below summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

History of experience adjustments: Gains and Losses (R millions)

Experience adjustments	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017
Accrued liability	(1,893)	(75,058)	3,984	(8,305)	(4,668)
Fair value of plan assets	0.00	0.00	0.00	0.00	0.00

Provision for Long Service Awards

	Year ending 30/06/2018	Year ending 30/06/2019	2017	2016
Balance at beginning of year	54,680,233	59,210,286	52,050,287	50,676,361
Current-service cost	4,714,850	5,116,635	4,715,259	4,519,344
Interest cost	4,465,584	4,737,014	4,293,517	3,955,254
Benefits Paid/ Expected benefits	(4,650,381)	(7,396,303)	(4,511,190)	(4,421,299)
Actuarial Loss / (Gain)	-	-	(1,867,640)	(2,679,373)
	59,210,286	61,667,632	54,680,233	52,050,287

General description of the type of plan

The Municipality operates an unfunded defined benefit plan for all its employees whereby the Municipality offers employees Long Service Awards for every five years of service completed, from ten years of service to 45 years of service. Under the plan, a Long-service Award is payable after 10 years of continuous service,

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

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16. Provisions (continued)

Principal assumptions used as at the balance sheet date

Discount Rate: 8.52% (2016: 8.15%)

Cost Inflation Rate: 6.34% (2016: 7.26%)

Net Effective Discount Rate: 2.05% (2016 :1.26%)

Expected Retirement Age: 65 (2016:65)

Mortality during employment: SA85-90 Light (2016 : SA85-90 Light)

Sensitivity Analysis

The table below summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)

Assumptions	Change	Liability	% change
Central assumptions		54,680	
General salary inflation	+1%	58,510	7%
	-1%	51,230	-7%
Discount Rate	+1%	51,094	-7%
	-1%	58,734	8%
Average retirement age	-2 yrs	49,765	-9%
	2yrs	59,568	9%
Withdrawal rates	-50	61,469	12%

The table below summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2017.

Assumption	Change	Current - service Cost	Interest Cost	Total	% change
Central Assumptions		4,715,300	4,293,500	9,008,800	
General salary inflation	+1%	5,152,000	4,625,100	9,777,100	9%
	-1%	4,329,000	3,996,000	8,325,000	-8%
Discount rate	+1%	4,355,500	4,445,200	8,800,700	-2%
	-1%	5,128,300	4,107,000	9,235,300	3%
Average retirement age	-2yrs	4,325,300	3,873,300	8,198,600	-9%
	+2yrs	5,081,900	4,704,500	9,786,400	9%
Withdrawal rates	-10%	5,694,600	4,851,600	10,546,200	17%

History of Liabilities, Assets and Experience Adjustments

The table below summarises the accrued liabilities and the plan assets for the current period and the previous two periods.

Liability History	30/06/2014	30/06/2015	30/06/2016	30/06/2017
Accrued Liability	46,222,438	50,676,361	52,050,287	54,680,233
Fair value of plan assets	0	0	0	0
Surplus / (Deficit)	(46,222,438)	(50,676,361)	(52,050,287)	(54,680,233)

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

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Figures in Rand	2017	2016
17. Payables from exchange transactions		
Trade payables	561,854,686	397,282,278
Payments received in advanced	42,863,475	32,169,565
Accrued leave pay	74,381,920	69,940,230
Long Service Leave	4,827,190	5,055,482
Sundry creditors	38,494,879	40,258,874
Housing : Absa bank account	148,317	148,317
Other Creditors	2,070	2,070
	722,572,537	544,856,816
18. Consumer deposits		
Electricity and water	24,124,748	29,309,017
19. Revenue		
Rendering of services	13,541	3,701
Service charges	1,389,127,035	1,311,585,378
Rental of facilities and equipment	5,137,430	4,579,207
Licences and permits	7,107,165	5,717,316
Miscellaneous other revenue	8,339	4,197
Property rates	265,941,408	272,706,788
Government grants & subsidies	477,693,095	446,574,019
Levies	1,490,257	1,410,620
Fines, Penalties and Forfeits	10,505,354	13,573,269
Market Dues	16,616,277	16,064,180
	2,173,639,901	2,072,218,675
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,389,127,035	1,311,585,378
Rendering of services	13,541	3,701
Rental of facilities and equipment	5,137,430	4,579,207
Licences and permits	7,107,165	5,717,316
Miscellaneous other revenue	8,339	4,197
Commissions received	10,717,594	10,370,251
Recoveries	9,902,031	2,113,123
	1,422,013,135	1,334,373,173
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	265,941,408	272,706,788
Transfer revenue		
Government grants & subsidies	477,693,095	446,574,019
Levies	1,490,257	1,410,620
Fines, Penalties and Forfeits	10,505,354	13,573,269
Market Dues	16,616,277	16,064,180
	772,246,391	750,328,876

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
20. Property rates		
Rates received		
Residential	262,640,107	251,737,887
State	9,679,352	24,282,924
Indigent	(6,416,106)	(3,352,078)
Sundry debtors	38,055	38,055
	265,941,408	272,706,788
Valuations		
Residential	15,535,909,231	15,535,909,231
State	934,669,050	934,669,050
Municipal	625,832,325	625,832,325
Agricultural	2,057,631,936	2,057,631,936
Business	4,701,022,117	4,701,022,117
	23,855,064,659	23,855,064,659
Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. The valuations were done by DDP Valuers on behalf of the Municipality.		
21. Service charges		
Sale of electricity	699,088,395	660,703,175
Sale of water	465,049,360	436,843,406
Sewerage and sanitation charges	98,707,056	91,495,501
Refuse removal	126,282,224	122,543,297
	1,389,127,035	1,311,585,379
22. Government grants and subsidies		
Operating grants		
Equitable share	342,855,000	339,737,000
MIG	130,178,813	100,131,066
FMG	1,805,060	1,673,930
MSIG	-	935,210
Library Grant	950,945	607,834
Museum Grant	250,000	99,998
	476,039,818	443,185,038
Capital grants		
EPWP	1,653,277	3,388,981
	1,653,277	3,388,981
	477,693,095	446,574,019

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

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Figures in Rand	2017	2016
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22. Government grants and subsidies (continued)

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R454 (2016: R390), which is funded from the grant.

MIG

Current-year receipts	83,362,000	84,493,000
Conditions met - transferred to revenue	(83,195,915)	(67,670,074)
Roll over denied	-	(16,822,926)
	166,085	-

Conditions still to be met - remain liabilities (see note 15)

The municipality was denied a rollover of R40.1million for the 2013-14 financial period. This amount was deducted from the equitable share allocation that was paid over to the municipality in the same year. Having then settled this denied rollover, the municipality was once more denied another rollover for the 2014-15 period of R35million which was due to an error in the disclosure of the MIG grant. Consequently the municipality had to fund capital projects to the value of R40million using funding that was either earned through operations or from equitable share resulting in the cashflow difficulties that have plagued the municipality for the last couple of years.

NERSA

Balance unspent at beginning of year	1,938,428	414,998
Current-year receipts	10,800,000	5,000,000
Conditions met - transferred to revenue	(11,669,452)	(3,476,570)
	1,068,976	1,938,428

Conditions still to be met - remain liabilities (see note 15)

FMG

Balance unspent at beginning of year	1,070	-
Current-year receipts	1,810,000	1,675,000
Conditions met - transferred to revenue	(1,805,060)	(1,673,930)
	6,010	1,070

Conditions still to be met - remain liabilities (see note 15)

DWAF

Balance unspent at beginning of year	276,464	276,464
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Conditions still to be met - remain liabilities (see note 15)

MSIG

Balance unspent at beginning of year	130,526	135,736
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(935,210)
Roll over denied	(130,526)	-
	-	130,526

Conditions still to be met - remain liabilities (see note 15)

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. Government grants and subsidies (continued)		
EPWP		
Balance unspent at beginning of year	1,512,217	2,973,198
Current-year receipts	1,656,000	3,028,000
Conditions met - transferred to revenue	(1,653,277)	(3,388,981)
Roll over denied	(1,512,474)	(1,100,000)
	2,466	1,512,217
Conditions still to be met - remain liabilities (see note 15)		
Fire		
Balance unspent at beginning of year	255,183	52,606
Current-year receipts	-	2,200,000
Conditions met - transferred to revenue	-	(1,997,423)
	255,183	255,183
Conditions still to be met - remain liabilities (see note 15).		
Library		
Balance unspent at beginning of year	1,632,754	1,240,589
Current-year receipts	1,100,000	1,000,000
Conditions met - transferred to revenue	(950,944)	(607,835)
	1,781,810	1,632,754
Conditions still to be met - remain liabilities (see note 15).		
NDPG Grant		
Balance unspent at beginning of year	-	3,971,670
Current-year receipts	35,325,000	26,987,000
Conditions met - transferred to revenue	(35,296,850)	(26,987,000)
Rollover denied	-	(3,971,670)
	28,150	-
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
District MEYMP		
Balance unspent at beginning of year	213,176	213,176
Conditions still to be met - remain liabilities (see note 15).		
Disaster Assessment Management Grant		
Balance unspent at beginning of year	200,000	200,000
Conditions still to be met - remain liabilities (see note 15).		

City of Matlosana

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. Government grants and subsidies (continued)		
District Grant		
Balance unspent at beginning of year	4,581,284	4,581,284
Conditions still to be met - remain liabilities (see note 15).		
Museum Grant		
Balance unspent at beginning of year	7,352	7,350
Current-year receipts	-	100,000
Conditions met - transferred to revenue	-	(99,998)
	7,352	7,352
Conditions still to be met - remain liabilities (see note 15).		
23. Other income		
Commissions received	10,717,594	10,370,251
Royalties received	1,753,619	2,338,097
Rental income - third party	273,955	295,481
Discount received	627,965	638,644
Recoveries	698,348	2,113,123
Gain on movement of provisions	9,203,683	-
Other miscellaneous income	14,321,889	14,164,825
Donation of community hall	20,836,637	25,772,055
	58,433,690	55,692,476

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

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Figures in Rand	2017	2016
24. General expenses		
Advertising	1,309,196	1,165,836
Alternative Energy	6,639,731	4,861,366
Animal costs	-	11,774
Auditors remuneration	4,057,121	5,969,400
Bank charges	5,608,938	7,646,210
Chemicals	1,109,021	1,239,403
Professional Fees	12,492,667	11,886,522
Commission paid	15,331,710	10,728,637
Community development and training	395,825	131,526
Conferences and seminars	1,130,812	994,110
Consumables	1,355,864	1,164,246
Discount allowed	1,103,318	885,620
Entertainment	180,497	64,937
Fines and penalties	803,500	-
Hire	4,652,798	4,566,383
Indigent costs	1,430,903	16,846,954
Installation cost	13,102,319	11,552,819
Insurance	4,503,730	5,758,290
Legal fees	14,105,403	12,649,835
Loss on Disposal of Assets	32,631,093	660,191
Magazines, books and periodicals	78,702	58,487
Marketing	215,235	203,977
Medical expenses	133,148	54,212
Meter readings	7,816,895	9,207,192
Motor vehicle expenses	46,653,180	50,308,659
Other miscellaneous	36,450,638	21,181,795
Pest control	70,000	68,803
Postage and courier	3,831,047	3,188,072
Printing and stationery	3,161,453	2,690,652
Promotions and sponsorships	134,124	100,000
Protective clothing	4,872,144	1,490,337
Refuse	6,411,245	5,923,133
Revenue enhancement	236,669	-
Royalties and license fees	5,375	-
Stock write- offs	591,767	6,174,489
Subscriptions and membership fees	2,971,381	4,306,584
Telephone and fax	5,707,910	5,508,217
Title deed search fees	375,759	349,145
Tracing fees	1,053	88,800
Training	2,735,404	591,581
Transport and freight	12,221	35,568
Travel - local	376,070	336,103
Valuation fees	45,150	692,643
	244,831,016	211,342,508

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
25. Employee related costs		
Basic	332,623,196	314,474,587
Medical aid - related costs	42,198,994	27,356,257
UIF	3,241,851	2,992,576
WCA	2,786,575	2,534,242
SDL	4,349,515	4,071,448
Leave pay provision charge	4,213,397	3,282,743
Travel, motor car, accommodation, subsistence and other allowances	8,692,636	8,135,936
Overtime payments	31,423,203	31,115,095
Long-service awards	2,629,937	1,373,926
13th Cheques	25,542,139	23,537,351
Housing benefits and allowances	2,162,573	2,056,386
Group insurance	1,270,586	1,178,624
Pension fund	65,177,038	62,588,435
Redemption of leave	3,014,501	3,832,216
Cell Phone Allowance	601,330	601,004
Other payments	504,694	248,563
Blood Samples	19,549	35,369
	530,451,714	489,414,758
Remuneration of municipal manager		
Motsemme ET (Municipal Manager)	-	1,398,928
Mabuda SG(Acting Municipal Manager until September 2016)	1,024,598	1,398,928
TSR Nkhumise (Acting Municipal Manager from October 2016 to April 2017 and appointed as Municipal Manager from May 2017)	444,296	-
	1,468,894	2,797,856
Remuneration of Chief Finance Officer		
CHR Boshoff(Acting Chief Financial Officer until March 2017)	1,094,580	1,369,066
MKG Ramorwesi (Chief Financial Officer since March 2017)	345,302	-
	1,439,882	1,369,066
Remuneration of Director Municipal & Environmental Services (Vacant)		
Annual equivalent remuneration.	1,190,868	1,121,343
Remuneration of Director Corporate Services		
Ramorola LM(Acting director until 16 April 2017)	936,022	1,121,343
Remuneration of Director Macro City Planning & Development		
Annual equivalent remuneration (Mabuda SG was appointed acting municipal manager from 14 January 2015)	1,190,868	1,121,343
Remuneration of Director Strategic Planning, Monitoring and Control (Vacant)		
Annual equivalent remuneration(Ramorola LM was appointed acting corporate service director)	1,190,868	1,121,343
Remuneration of Director Infrastructure (Vacant)		
LM More(Acting Director until May 2017)	1,190,868	1,121,343
Remuneration of Director Electrical and Mechanical Engineering (Vacant)		
Annual equivalent remuneration.	1,190,868	1,121,343

City of Matlosana

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Figures in Rand	2017	2016
26. Remuneration of councillors		
Executive Mayor	859,856	816,329
Mayoral Committee Members	6,450,621	7,311,307
Speaker	733,770	658,915
Councillors	20,353,829	15,195,294
	28,398,076	23,981,845
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has the use of a Council owned vehicle for official duties.		
The Executive Mayor has one full-time bodyguard\driver.		
27. Debt impairment		
Debt impairment	16,244,975	-
Contributions to debt impairment provision	527,213,577	480,063,289
	543,458,552	480,063,289
28. Investment revenue		
Interest revenue		
Bank	807,816	671,841
Interest charged on trade and other receivables	161,301,557	130,897,119
Interest on investments	8,357,872	6,911,774
	170,467,245	138,480,734
29. Depreciation and amortisation		
Property, plant and equipment	410,555,939	427,744,133
30. Finance costs		
Non-current borrowings	8,997,234	10,598,773
Other interest paid	34,957,730	23,264,026
	43,954,964	33,862,799
31. Auditors' remuneration		
Fees	4,057,121	5,969,400
32. Contracted services		
Security Services	22,892,261	22,647,945
Disconnecting/ Connecting Services	693,011	-
Debt Collection	12,403,036	9,407,373
Garden Services Paypoints	-	-
	35,988,308	32,055,318

City of Matlosana

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
33. Bulk purchases		
Electricity	529,967,390	524,019,282
Water	245,252,037	235,325,489
	775,219,427	759,344,771
Electricity (losses in units)	136,612,158	148,982,382
Electricity (losses as %)	24%	25%
Water (losses in units)	10,407,632	8,886,211
Water (losses) in %	35%	29%
Electricity and water are supplied by Eskom and Midvaal Water Company.		
The municipality is in the process of installing meters at all its premises to enable us to accurately measure and manage own use. A strategy has been developed to minimise distribution losses and it will be implemented over time due to budget constraints.		
34. Cash generated from operations		
Deficit	(307,260,511)	(254,274,906)
Adjustments for:		
Depreciation and amortisation	410,555,939	427,744,133
Debt impairment	462,331,490	480,063,287
Movements in provisions	(6,573,746)	(13,753,549)
Non-cash donation received	(20,836,637)	(25,772,055)
Leave provision	-	8,199,206
Stock Adjustment	591,767	5,201,080
Loss on sale of assets	32,631,093	660,190
Wild stock adjustment	955,169	-
Changes in working capital:		
Inventories	(3,373,393)	(15,611,691)
Receivables from exchange transactions	15,551,203	(27,434,875)
Consumer debtors	(498,263,156)	(510,361,822)
Other receivables from non-exchange transactions	(997,886)	3,399,530
Other receivables	35,163	3,017,749
Payables from exchange transactions	178,110,130	2,405,540
VAT	(28,150,134)	13,576,470
Unspent conditional grants and receipts	(2,161,499)	(3,318,614)
	233,144,992	93,739,673

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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35. Commitments

Authorised capital expenditure

• Infrastructure	119,803,987	17,732,719
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This expenditure will be financed from :

• Government grants	119,803,987	17,732,719
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This committed expenditure relates to property, plant and equipment and will be financed by grants from National Treasury.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	26,844,680	13,164,680
- in second to fifth year inclusive	7,808,227	17,552,906
	34,652,907	30,717,586

Operating lease payments represent rentals payable by the municipality for photocopiers. Leases are negotiated for an average term of three years. No contingent rent is payable.

36. Contingencies

Contingent assets

City of Matlosana / MM Moadira

Six claims were formulated in the summons relating to financial losses due to misconduct by the defendant	-	4,754,892
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City of Matlosana / Munmap (Pty) Ltd Maximum Profit Recovery (Pty) Ltd

Council obtained judgement against respondent.	650,000	650,000
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Isago at N12 Development / City of Matlosana, Abacus Asset Management And Sanral

Isago owes the Municipality 3,6million for the value of street lights that should have been installed.	3,600,000	-
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City of Matlosana / Great Champs Trading

Settlement for rental due and payable which defendant has not settled.	76,693	76,693
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City of Matlosana / Badiboa

The claim from the City of Matlosana is one for damages suffered due to the breach of contract by Badiboa	1,500,000	-
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City of Matlosana / Mr Masisi

City of Matlosana sued Mr Masisi for fruitless and wasteful expenditure	2,657,462	1,000,000
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City of Matlosana / Isago at N12 Development

Isago owes the City of Matlosana 10mill for breach of contract.	10,000,000	-
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City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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37. Related parties

Relationships

Councillor PN Moeng	Titanic Funeral Services
Councillor SOC Barends	Neo Ya Rona Trading Enterprise
Councillor MI Groenewald	Midvaal Water Company

Councillor Groenewald is a member of the board of directors of the Midvaal Water Company (a section 21 company) who supply bulk water to the City of Matlosana. Transactions with Midvaal Water Company amounted to R245 252 037 (2016:R235 325 489). Midvaal Water Company is a supplier and the transactions are at arm's length.

Councillors Moeng is a member of Titanic Funeral Services and the amount contracted for the year amounted to R13 250.

Councillor Barends is a related party of Ya Rona Karona Trading Enterprise and the amount contracted for the year amounted to R24 200

38. Prior period errors

1. In the prior year the opening balance for the following assets was discovered to be have been misstated: Infrastructure was understated by R46 770 109.57, Land held for sale was oversated by R4 875.79, Land and Buildings were over understated by R896 881.39, Plant and Equipment was understated by R2 302 914, Other assets (Movables) were understated by R365 045, Heritage Assets were understated by R637 605, Land held for sale was overstated by R4 875 and Investment property was understated by R268 339.77.
2. In 2016 the investment property was unundersated by R15 276 352.72 and VAT recievale was understated by R1 545 928.75 due to an omission error when the recievale from the sale of stands was written off.
3. in 2016, the depreciation was overstated by R45 199 466.84 and the related accumulated depreciation for the property plant and equipment was overstated by the same amount.
4. During the the 2016 financial period, there was capital expenditure that was incorrectly expensed and this led to an understated of the Infrastructure and overstated of expenses by R1 364 665.
5. The insurance expenses were duplicated in the prior year and consequently the general expenses were overstated by R6 167 922.82 and the receivables from exchange transactions were understated by the same amount.
6. In the prior year, the receivables were overstated by R911 793.10 due to late entries, while the other revenue was overstated by the same amount.
7. In the prior year, the irregular expenditure was understated by R35 741 214.52 due to certain transactions being omitted from the register.
8. In 2015, the gross debtors where understated by R85 462 131.14 and by R87 781 684.23 while revenue was understated by R2 319 553.09 due to the non-accrual of unbilled water and electricity.
9. In the prior year the NDPG grant was incorrectly recognised as having been overspent by R132 329, consequently, grant revenue was overstated and unspcnt conditional grants were overstated.

Effect of errors on the Accumulated Surplus

Increase in accumulated surplus due to error 1	-	47,139,343
Increase in accumulated surplus due to error 2	-	16,822,281
Increase in accumulated surplus due to error 9	-	85,462,131
Increase / (Decrease) in Unappropriated Surplus Account	-	149,423,755

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

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Figures in Rand	2017	2016
38. Prior period errors (continued)		
Effect of errors on Statement of financial position		
increase in Property, plant and equipment due to error 1	-	46,238,274
Increase in Heritage assets due to error 1	-	637,605
Decrease in inventory due to error 1	-	(4,877)
Increase in Investment property due to error 1	-	268,340
Increase in investment property due to error 2	-	15,276,353
Increase in VAT recievable due to error 2	-	1,545,929
Increase in property plant and equipment due to error 3	-	45,199,467
Increase in property plant and equipment due to error 4	-	1,364,665
Decrease in recievables from exchange transactions due to error 5	-	6,167,923
Decrease in receivables from exchange transaction due to error 6	-	(911,793)
Increase in consumer debtors due to error 9	-	87,781,684
Increase in unspent conditional grants due error 10	-	(132,329)
	-	203,431,241
Effect of errors on Statement of Financial Performance		
Deficit as previously reported	-	(308,282,393)
Decrease in depreciation due to error 3	-	45,199,467
Decrease in general expenses due to error 4	-	1,364,665
Decrease in General Expenses due to error 5	-	6,167,923
Decrease in other income due to error 6	-	(911,793)
Increase in service revenue due to error 9	-	2,319,553
Decrease in grant revenue due to error 10	-	(132,329)
Restated deficit as per Statement of changes in Net Assets	-	(254,274,917)

39. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide services for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 14, cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The municipality's strategy is to maintain a gearing ratio of between 10% to 35%.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2017 and 2016 respectively were as follows:

City of Matlosana

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Notes to the Annual Financial Statements

Figures in Rand		2017	2016
39. Risk management (continued)			
Total borrowings			
Current Liabilities		781,726,126	610,586,996
Non-current liabilities		334,436,272	356,357,431
		1,116,162,398	966,944,427
Less: Cash and cash equivalents	13	90,532,317	25,568,909
Net debt		1,025,630,081	941,375,518
Total equity		4,909,188,311	5,013,017,614
Total capital		5,934,818,392	5,954,393,132

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a central treasury department under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2017 and 2016, the municipality's borrowings at variable rate were denominated in Rand.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2017	2016
Long term receivables	30,059,029	27,692,322
Consumer debtors	285,321,220	161,607,870
Other receivables	137,464	172,627
Cash and cash equivalents	90,532,317	25,568,909

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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39. Risk management (continued)

The municipality is exposed by a guarantee for a loan at DBSA and is secured by the Nedbank investment as disclosed in note 12.

40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We are experiencing cash flow challenges as a result of low debtors collection rate which has an impact on our ability to pay our creditors timeously. Our ability to continue as a going concern is highly dependant on improvement of collections and management of costs. As a result of the above financial indicators, some uncertainty exists regarding the Municipality to continue as a going concern.

41. Events after the reporting date

There were no material events that required an adjustment to the annual financial statements after the reporting date.

42. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	1,498,231,982	1,424,534,175
Unauthorised expenditure current year	184,080,291	73,697,807
Unauthorised expenditure awaiting authorisation	1,682,312,273	1,498,231,982

The over expenditure for the 2017 financial year is primarily due the impairment on the consumer debtors and other debtors. The total balance including the opening balance will be dealt with in accordance with the MFMA requirements.

43. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	114,486,490	91,222,464
Fruitless and wasteful expenditure current year	37,420,124	23,264,026
Fruitless and wasteful expenditure awaiting condonement	151,906,614	114,486,490

The Municipality incurred interest as a result of late payment of the Eskom, SARS, Midvaal and Auditor General accounts. Fines and penalties were also incurred for non payment of the amounts due to the Department of Labour for workman's compensation contributions.

After the financial period, on the 29th of August, council resolved to write-off R131,205,397 of the fruitless and wasteful expenditure as irrecoverable after complying with the requirements of section 32 of the MFMA.

44. Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	2,117,068,158	1,870,863,938
Add: Irregular Expenditure - current year	254,293,906	188,430,526
Add: Deviations	20,957,980	22,032,479
Prior period errors	-	35,741,215
Irregular expenditure awaiting condonement	2,392,320,044	2,117,068,158

All possible Irregular expenditure is being investigated. Once we finalise all the technical processes and we are satisfied that its irregular it will be included on our Irregular expenditure register.

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government : SALGA

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
45. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Opening balance	23,754	23,754
Current year subscription / fee	2,788,000	3,371,500
Amount paid - current year	(2,788,000)	(3,371,500)
	23,754	23,754
Audit fees		
Opening balance	1,866,567	4,841,740
Current year subscription / fee	3,420,849	1,427,904
Amount paid - current year	(3,945,173)	(4,403,077)
	1,342,243	1,866,567
PAYE, UIF and SDL		
Opening balance	4,671,183	4,043,452
Current year subscription / fee	53,594,461	57,783,400
Amount paid - current year	(53,075,364)	(57,155,669)
	5,190,280	4,671,183
Pension and Medical Aid Deductions		
Opening balance	10,339,820	11,107,186
Current year subscription / fee	160,343,334	129,781,113
Amount paid - current year	(160,196,117)	(130,548,479)
	10,487,037	10,339,820
VAT		
VAT receivable	43,146,756	14,996,622

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2017:
(Currently arrangements with the Councillors to deduct the outstanding balances from their monthly salaries in line with the council's credit policy)

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

June 30, 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor M Coetzee	2,924	40,951	43,875
Councillor MF Nthaba	9,894	17,531	27,425
Councillor NA Ludidi	968	9,864	10,832
Councillor VS Qankase	845	2,437	3,282
Councillor JS Tsabedze	1,103	19,001	20,104
Councillor R Thejane	1,064	89,486	90,550
Councillor HL Methi	2,204	56,414	58,618
Councillor SH Nani	1,563	62,891	64,454
Councillor MC Mahlangu	270	14,020	14,290
Councillor TM Mabulela	1,061	3,528	4,589
Councillor RK Ponisi	1,798	54,479	56,277
Councillor TG Khoza	2,237	22,090	24,327
Councillor NI Matetoane	6,935	18,984	25,919
Councillor M Ntaopane	1,857	16,037	17,894
Councillor GS Nkebe	1,519	4,602	6,121
Councillor GL Moeng	719	9,397	10,116
Councillor SD Mongale	1,087	10,628	11,715
Councillor NS Mandela	3,536	3,835	7,371
Councillor MJ Moloko	4,831	41,551	46,382
Councillor G Mqikela	1,035	40,682	41,717
Councillor LD Molefi	1,064	5,277	6,341
Councillor ME Mosweu	2,323	809	3,132
Councillor DF Roodt	13,108	65,660	78,768
	63,945	610,154	674,099
30 June 2016	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor M Coetzee	6,862	34,924	41,786
Councillor MP Hlaka	2,363	4,187	6,550
Councillor KL Ross	1,128	3,128	4,256
	10,353	42,239	52,592

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
45. Additional disclosure in terms of Municipal Finance Management Act (continued)		
June 30, 2017	Highest outstanding amount 2017	Highest outstanding amount 2016
Councillor R Thejane	90,549	-
Councillor DF Roodt	78,768	-
Councillor SH Nani	64,454	-
Councillor HL Methi	58,618	-
Councillor RK Ponisi	56,277	-
Councillor MJ Moloko	46,381	-
Councillor M Coetzee	43,875	41,786
Councillor G Mqikela	41,717	-
Councillor MF Nthaba	27,425	-
Councillor NI Matetoane	25,920	-
Councillor TG Khoza	24,327	-
Councillor JS Tsabedze	20,104	-
Councillor M Ntaopane	17,894	-
Councillor MC Mahlangu	14,290	-
Councillor SD Mongale	11,716	-
Councillor NA Ludidi	10,832	-
Councillor GL Moeng	10,117	-
Councillor NS Mendela	7,371	-
Councillor LD Molefi	6,341	-
Councillor GS Nkebe	6,121	-
Councillor TM Mabulela	4,589	-
Councillor VS Qankase	3,282	-
Councillor ME Mosweu	3,132	-
Councillor MP Hlaka	-	9,609
Councillor KL Ross	-	6,628
	674,100	58,023

City of Matlosana

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
46. Contingent liabilities		
	-	-
S Ndabangaugue / City of matlosana	-	150,000
H.T Tshoepe / City of matlosana Litigation between the municipality and the plaintiff against unlawful dismissal	-	150,000
City of Matlosana / Balemi Service provider did not deliver on services as awarded by the tender	-	1,600,000
City of Matlosana / Isago @N12 Development (Pty) Ltd Claims to prevent development on property in Flamewood, due to unlawful dealings by the first respondent	-	160,000,000
Owamajola / City of Matlosana The plaintiff sued the City of Matlosana for service rendered of R3 396 512.43	3,396,512	3,396,512
Badiboa / City of Matlosana The matter relates to a tender for the paving of Taxi Routes and Stormwater Drainage which tender was awarded to Badiboa and they were subsequently appointed on 17 August 2010. The contract was cancelled by the City of Matlosana on 14 January 2011 due to Badiboa failing to progress with the Construction.	-	2,000,000
Solid base trading cc / City of Matlosana Me. Betty Manisa claim from Council for services rendered during 2007.	-	11,234,700
City of Matlosana / ET Motsemme The plaintiff is suing the municipality for wrongful dismissal	13,000,000	-
City of Matlosana / N Mceleni Litigation and claim between the plaintiff and the municipality	-	100,000
City of Matlosana / S Mokake Litigation and claim between the plaintiff and the municipality	-	100,000
City of Matlosana / Sizan Scrapmetals Litigation and claim between the plaintiff and the municipality	-	100,000
City of Matlosana / Bakgeni Civils & Construction Arbitration award for non monetary claim to supplier	-	171,108
Van Niekerk / City of Matlosana This matter relates to two respective issues. The first is a high court application launched by Van Niekerk against a Mr Coetzee in respect of a Land Use rights dispute wherein the COM has also been added as a respondent to defend certain decisions taken by it to approve the said Land Use Rights to Coetzee. The second part is an appeal to the COM against the decision by the COM to have approved the application of Coetzee for the acquired Land Use rights. The appeal process will undoubtedly result in a review application to the High Court once completed internally by the COM.	100,000	-
QCK Lezmin 4251 CC / City of Matlosana Council is defending summons brought against the Council by the plaintiff.	-	1,309,124

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
46. Contingent liabilities (continued)		
P&S Basson / City of Matlosana A summons was brought against the Council for psychological shock and emotional shock by the Plaintiffs.	283,200	-
Ke A Dira Construction CC / City of Matlosana Council is defending summons brought against the Council by the plaintiff for losses alleged to have been experienced due to the revision of tender FS 1/2011.	17,391,228	17,391,229
City of Matlosana / SAMWU 060 ABS Fourie Litigation and claim between the plaintiff and the municipality	-	153,632
City of Matlosana / Hendrick Mvundlela Litigation and claim between the plaintiff and the municipality	-	361,953
City of Matlosana / SAMWU 060 M.E Khumalo Litigation and claim between the plaintiff and the municipality.	-	257,638
Itumre Building Supply CC / City of Matlosana The City of Matlosana is defending the matter. The case of action started during 2011	563,816	563,816
City of Matlosana / SAMWU 060 Mapaseka Diseko Litigation and claim between the plaintiff and the municipality	-	361,887
MM Moadira / Executive Mayor and City of Matlosana Litigation and claims between plaintiff and the municipality	-	5,000,000
Itumeleng Phela / City of Matlosana On or about 25 August 2016, as a result of an alleged failure by certain employees of the CoM to secure a maintenance site where they were conducting maintenance work on water pipes. and the CoM is being sued for 10million	10,000,000	-
City of Matlosana / S.J Khabu Litigation and claims between plaintiff and the municipality	1,212,000	1,212,000
City of Matlosana / Bonang Trading Developments Litigation and claims between plaintiff and the municipality	-	1,015,000
Invula Roads and Civil / City of Matlosana The claimant instituted legal action against the City of Matlosana for services rendered	268,383	-
Munmap (Pty) Ltd Maximum Profit Recovery / City of Matlosana The claimant instituted legal action against the City of Matlosana	-	7,822,100
Nicolaas Johannes Myburg / City of Matlosana A Summons was brought against Council for the amount of R1 007 879,31 by Mr N.J Myburg, where he was claiming money from Council for damages to his property due to a fire outbreak. On 5 June 2005 a fire broke out in Mr Myburg's house on Plot 9, Golden Vaal, Vierfontein District, Viljoenskroon. The fire brigade reacted to an emergency call. When the fire brigade eventually arrived their equipment malfunctioned.	1,007,879	-
City of Matlosana / Solid Base Trading CC Claim against City of Matlosana due to expropriation of land.	350,000	-

City of Matlosana

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
46. Contingent liabilities (continued)		
IMIC Investments (Pty) Ltd / City of Matlosana		
The claimant instituted legal action against the City of Matlosana.	329,536	-
City of Matlosana / Incledon Division of DPI Plastics (Pty) Ltd		
Litigation and claims between the plaintiff and the municipality	-	200,000